PEPSI-COLA COMPANY

Annual Report

1947

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Pepsi-Cola Company

March 31, 1948

To the Stockholders:

The year 1947 was one of transition in the soft drink industry, resulting in numerous problems of readjustment. Despite such problems, your Company and its franchised bottlers sold more cases of Pepsi-Cola in the United States and foreign countries in the year 1947 than in the previous year; and the net profit of your Company and its subsidiaries was higher than in any year since its recapitalization and merger in 1941. Your Company will continue in the year 1948 to vigorously meet these problems of readjustment with a view to further the growth and development of the Company's operations and to strengthen its position in the industry.

FINANCIAL REVIEW

There is presented herewith a review of the operations of your Company and subsidiaries for the year 1947, together with a Consolidated Balance Sheet at December 31, 1947, and a summary of Consolidated Income and Earned Surplus for the year then ended, certified by Haskins & Sells, independent certified public accountants.

NET INCOME AFTER ALL TAXES

After providing for all taxes in the United States and foreign countries, the net income of the Company and its subsidiaries for the year 1947 was $6,769,834, or approximately $1.18 per share on the present outstanding Capital Stock. This compared with $6,266,728, or approximately $1.09 per share, in the year 1946.

OPERATING NET PROFIT

The consolidated net profit after all charges and expenses, but before deductions of reserves for United States and foreign income taxes for the year 1947 was approximately $10,344,511, as compared to $10,034,730 for the year 1946.

There is listed below a continuation of the table of comparisons which we have published in previous annual reports of the operating net profit of the old Pepsi-Cola Company and its subsidiaries for the year 1936 through 1940, and for the present Pepsi-Cola Company and its subsidiaries since that time. The table below is based on net profits after deducting all charges and expenses, but before the deduction of reserves for United States and foreign income taxes:

1936	$ 2,083,597
1937	3,224,625
1938	4,027,513
1939	5,952,602
1940	8,520,582
1941	14,949,335
1942	14,863,011
1943	12,712,939
1944	13,122,492
1945	10,845,931
1946	10,034,730
1947	10,344,511

CHANGES IN METHOD OF OPERATION DURING 1947

In the latter half of 1947, sugar rationing was removed for the first time in approximately six years. As a result, a complete change took place in the supply of soft drinks and in competitive conditions in the industry. In order to meet these conditions and to lay the groundwork for an intensive and aggressive merchandising program in 1948, your Company, in the fall of 1947, inaugurated the following program:

1. It put into effect a new method of packaging and shipment of concentrate, resulting in savings in packaging, labor and freight.

2. It commenced the construction of two additional concentrate plants—one in Louisville, Kentucky, and the other in Oakland, California. Both of these plants should save the Company money when in operation.

3. In order to further assist Pepsi-Cola franchised bottlers through this competitive transition period, the Company reduced the price of its concentrate so that their concentrate cost was aproximately 2 cents a case below pre-war levels. The Company will continue to watch this situation carefully and will continue this price relief so long as in their opinion conditions warrant it.

Pepsi-Cola's franchised bottling plant at Culiacan, Mexico

4. It launched an aggressive merchandising and sales program, the "Treasure Top" Contest, to start at the beginning of 1948, designed to further stimulate consumer and dealer interest.

5. It adopted, and is continuing to vigorously carry out, a program of streamlining the organization and operations of the Company, with a view to effecting general operating economies.

As these steps were being taken, reduced sales during the readjustment period, coupled with the lower selling price of concentrate, resulted in an unprofitable final quarter of 1947. This transitional period continued during the first quarter of 1948 and was further complicated by unusually bad weather in most sections of the country. Accordingly, it is anticipated that although the Company will show a profit in the first quarter of 1948, the earnings will be lower than in the first quarter of 1947. It is further anticipated that a good deal more favorable result will be achieved as the year progresses.

Retail Selling Price:

At the end of price control in 1946 most bottlers of Pepsi-Cola advanced their prices because of higher costs for sugar, labor and other materials, so as to retail to the consumer at 6 cents for the big bottle. This was pointed out to the stockholders in the 1946 annual report and, as a result, 1947 in general was a year of profitable operations for the Company and its franchised bottlers.

When sugar rationing ended in August and the bottlers could again get an unlimited supply for the first time in over six years, your Company made a number

of changes as already outlined in this report in order to assist the bottlers in reducing their costs and enabling those who so desired to return to a price of 5 cents. It is interesting to note that at the present time about 50% of the bottlers are selling Pepsi-Cola in their territories so as to retail for a nickel and the other 50% are selling so as to retail at 6 cents.

Pepsi-Cola's franchised bottling plant at Puebla, Mexico

IMPROVEMENT IN COMPANY PROPERTIES

In order to offset increasing costs, and to improve manufacturing facilities, the Company in 1947 made various important changes in its physical properties, as listed below:

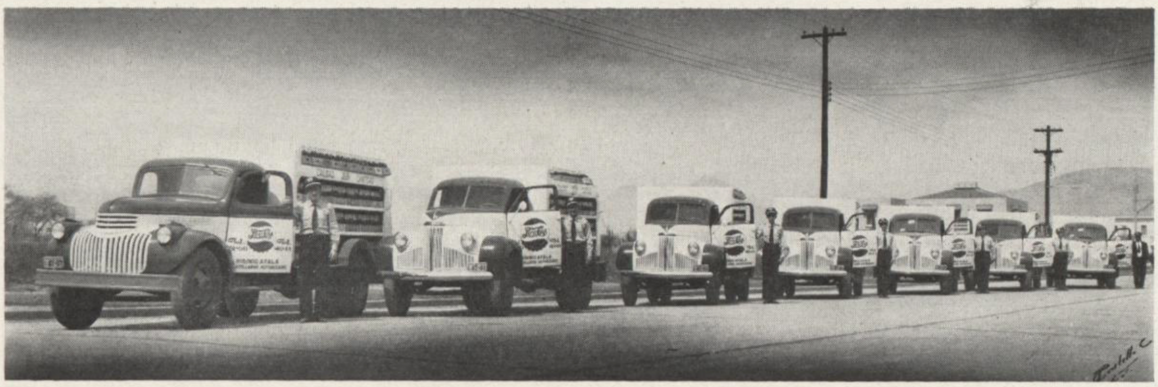
New Concentrate Plants:

A manufacturing plant was purchased in Louisville, Kentucky, the building remodeled, and additions made. This plant will manufacture and supply concentrate to the South and parts of the West, thereby not only improving service and facilities for the bottlers in those areas, but also decreasing your Company's freight costs. This plant was put into operation about February 15, 1948.

A new concentrate plant in Oakland, California, is now nearing completion and should be in operation within the next 30 days.

Syrup manufacturing facilities for the East, which were located in the Company's building at 33d Street in Long Island City, are now being moved to the Company's main plant and sugar refinery on the East River in Long Island City. This will eliminate the necessity of sugar and concentrate haulage between the two plants. These changes are now being made and the moving of the concentrate plant to its new location will be completed somewhere around the middle of 1948.

In view of these moves, it was found that it was not necessary to continue to maintain the large building on 33d Street in Long Island City, and it has been sold. Your Company will by mid-summer move its office to rented space in the heart of New York City — 3 West 57th Street — where a new building is being erected by the Greenwich Savings Bank. This move should result in a more economic operation.



Pepsi-Cola rolling south of the border

Company-owned Bottling Plants:

Many improvements have been made in company-owned plants. The plants in Boston, Massachusetts and New Brunswick, New Jersey have been considerably enlarged both in size and in machinery and equipment. All of the other company-owned plants have been maintained in good condition and are ready for the keen competitive period and aggressive merchandising of Pepsi-Cola in the years ahead.

FOUNTAIN SYRUP DEPARTMENT

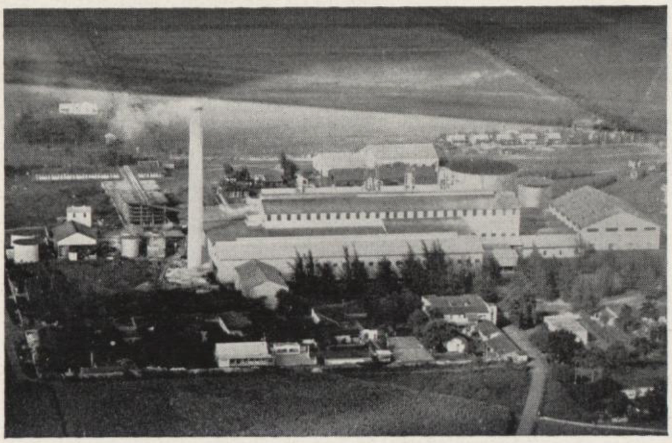
As pointed out in the previous annual report, plans were then being made for the distribution of Pepsi-Cola at the soda fountains across the nation in the big cup for 5 cents as soon as sugar made it possible. When sugar was removed from rationing, the fountain syrup department went ahead vigorously, and the development of Pepsi-Cola sales at the fountains is now well under way. Franchised bottlers are supplying fountain syrup put up in a special new type container — a one-gallon non-returnable can. This container fits into the new and distinctive type fountain dispenser which is being manufactured for the Company and is now being installed in the soda fountains throughout the country. The installation of this equipment and the development of sales of Pepsi-Cola at the soda fountains is a long-term program, but considerable progress should be made in 1948.

AUTOMATIC VENDING MACHINES

The ending of sugar rationing in 1947 allowed the Company to start the merchandising of Pepsi-Cola in the automatic cup vending machine and this program is just getting under way at the present time. The Company is now having manufactured

for it and its bottlers, several different types of cup vending machines which it believes are superior to anything so far developed. These machines cannot be manufactured quickly due to material shortages so the program is one of gradual development. In these automatic cup vending machines, Pepsi-Cola is served in a large cup for 5 cents. The same one-gallon syrup can used in dispensing fountain syrup at the soda fountains is used in these automatic vending machines.

CUBAN SUGAR COMPANY



View of Company sugar factory at Matanzas, Cuba

The Cuban sugar crop for the year 1947 was one of the largest in the history of Cuba. As a result, the production of sugar by your Company's wholly-owned subsidiary, Compania Ingenios Azucareros Matanzas, S.A. in Central Espana, Cuba, was the largest in the history of that company, amounting to approximately 95,000 tons. The earnings of this subsidiary were substantially larger than in any previous year. Opportunity was taken during this period to improve the physical properties and the facilities of this subsidiary, so that, with additional changes which are being put into effect at the present time, this property is probably in the best physical shape in its history.

At this time, the 1948 crop of the Cuban Company appears to be a good one, but probably not as large as that of 1947. It is presently being ground; and although the price of sugar is somewhat reduced, it is expected that this subsidiary will show a good profit in its operations for the year 1948.

EVERVESS SPARKLING WATER

Evervess has continued its program of expansion but is still in the development stage. However, progress is being made in its merchandising and public acceptance. It is an excellent sparkling table water, generally sold to the consumer in the large 12-ounce bottle for 5 cents. In certain markets it is also sold in quarts and splits. It is being very carefully manufactured in franchised and company-owned bottling plants and has certain unique processes of manufacture in order to produce a water of the highest quality. Therefore, its retail price to the public is below that of comparable sparkling waters.

FOREIGN OPERATION

During the year 1947 three additional franchised bottling plants went into operation in foreign areas. It was not possible to put as many foreign plants into operation in 1947 as the Company had hoped, due to the difficulty in getting machinery and equipment. However, that situation is improving considerably, and new plants will be starting in 1948 as machinery is shipped both from the United States and Great Britain to various new territories.

Pepsi-Cola delivery fleet — Mexico City

With its high quality and its large bottle, Pepsi-Cola has been warmly received in these foreign markets.

In this report there are a number of pictures of operations in foreign markets. From these it will be seen that foreign franchised bottlers are being developed on a very sound basis with sizable investments and with well-rounded plants, machinery, and equipment. This is a fertile field for your Company during the coming years.

For the Armed Forces:

A large bottling plant is in operation at Aschaffenburg, Germany, which is manufacturing Pepsi-Cola for sale to the U. S. occupation forces in that area.

Three plants are operated by the Company in the Far East for the services there; one on the island of Guam, one in Kobe, Japan and another in Yokohama, Japan. All of these are company-owned plants and at the present time are selling their entire output to the armed forces.

Other Foreign Markets:

Pepsi-Cola has outgrown its present facilities on the Island of Cuba, and two new bottling plants are under construction in Cuba in order to increase facilities. This is a company-owned operation, and these two new additions should be in production by the summer of 1948.

The English company, a wholly-owned subsidiary, was not able to operate fully in the year 1947 due to the very strict rationing of sugar in Great Britain. This

condition probably will continue through most of the year 1948.

Pepsi-Cola Company of Canada, Ltd., a wholly-owned subsidiary and its 82 franchised bottlers in Canada, had sugar rationing until the end of 1947. Therefore, they were operating under restrictions and conditions similar to those in the United States. At the present time this subsidiary is also going through a period of readjustment similar to the United States.

Skywriter at work in Quebec, Canada

LOOKING FORWARD

Your Company looks to the future with confidence that the programs which have been inaugurated, and others which will be put into effect, will continue the growth and development of Pepsi-Cola. It is making available to the public a drink of the highest quality. It is giving the public in the big bottle, whether at 5 cents or 6 cents, the best value in the soft drink market today.

Pepsi-Cola has become an integral part of the family life of this country through aggressive advertising and merchandising and through various community activities sponsored by the Company.

Your officers look forward to steady progress of your Company at home and abroad in 1948 and to its continued growth in the years ahead.

Respectfully submitted,

WALTER S. MACK, JR.
President

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK 4

ACCOUNTANTS' CERTIFICATE

PEPSI-COLA COMPANY:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its subsidiaries as of December 31, 1947 and the related summary of consolidated income and earned surplus for the year ended that date. As to the companies other than the Canadian subsidiary, our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to the Canadian subsidiary, we examined a report of chartered accountants and the figures for that company included in the accompanying statements are derived from such report. The total assets of this subsidiary amount to approximately 7% of the consolidated total, and its gross profit on sales and net income for the year are approximately 5% and 8%, respectively, of the consolidated totals.

In our opinion, which as to the Canadian subsidiary is based upon the report of other accountants as above mentioned, the accompanying consolidated balance sheet and the related summary of consolidated income and earned surplus, with their notes, present fairly the financial condition of the companies at December 31, 1947, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

New York,
March 19, 1948

PEPSI-COLA COMPANY

(Incorporated in Delaware)

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1947

ASSETS

Current Assets:		
Cash on hand and demand deposits		$ 3,775,927
Canadian and United States Government obligations—at cost (less than market)		488,048
Notes and accounts receivable:		
Notes receivable	$ 47,837	
Accounts receivable:		
Customers	1,165,131	
U. S. Government	220,781	
Other	613,844	
Total	$ 2,047,593	
Less reserve for doubtful receivables	86,120	1,961,473
Inventories (see Note 1):		
Finished and in-process	$ 2,240,942	
Raw materials and supplies	6,137,463	8,378,405
Total current assets (see Note 2)		$14,603,853
Miscellaneous Assets:		
Notes and accounts receivable—not current	$ 858,567	
Machinery held for resale	519,210	
Deposits on plant and equipment purchases	161,216	
Other	173,517	1,712,510
Property, Plant, and Equipment:		
Land, buildings, equipment, leasehold improvements, etc. — at cost (less reserve for depreciation and amortization, $4,837,955)	$ 9,876,113	
Bottles and cases on hand and with trade (at estimated depreciated values)	2,592,439	12,468,552
Deferred Debit Items:		
Prepaid insurance, taxes, etc.	$ 730,587	
Advertising materials and expenses	613,600	
Expenses applicable to 1948 sugar crop in Cuba	637,296	
Other	95,822	2,077,305
Trade-marks, Formulas and Goodwill (at nominal value)		1
Total		$30,862,221

PEPSI-COLA COMPANY
(Incorporated in Delaware)
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1947

LIABILITIES

Current Liabilities:		
Loans payable to bank (certain assets in Cuba pledged as collateral — see Note 2)	$ 440,028	
Accounts payable and accrued	3,405,702	
Accrued taxes—estimated (see Note 4):		
United States and foreign income and excess profits taxes	4,155,075	
Other taxes	690,765	
Total current liabilities (exclusive of customers' deposits on bottles, cases, and other containers, shown below)		$ 8,691,570
Customers' Deposits on Bottles, Cases, and other Containers		997,199
Deferred Liability—Liens (Censos) on certain properties in Cuba		131,447
Sundry Reserves of Foreign Subsidiaries		143,660
Capital Stock and Surplus:		
Capital stock—Authorized 7,500,000 shares of 33⅓¢ each; issued and outstanding 5,752,659.57 shares (including 655.80 shares in treasury—see below) (see Note 5)	$ 1,917,553	
Capital surplus (see Note 6)	5,199,550	
Earned surplus (since August 1, 1939)	13,791,992	
Total	$20,909,095	
Less treasury stock (655.80 shares, at cost)	10,750	20,898,345

The accompanying Notes to Financial Statements are an integral part of this balance sheet.

Total		$30,862,221

PEPSI-COLA COMPANY AND SUBSIDIARIES

SUMMARY OF CONSOLIDATED INCOME AND EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1947

Gross Profit on Sales		$29,801,712
Advertising, Selling, Shipping, General and Administrative Expenses		19,527,769
Profit from Operations		$10,273,943
Other Income		576,136
Gross Income		$10,850,079
Income Charges		505,568
Net Income Before Deducting Provisions for Income Taxes		$10,344,511
Provisions for Income Taxes—Estimated:		
United States	$ 2,560,000	
Foreign	1,014,677	3,574,677
Net Income		$ 6,769,834
Earned Surplus, January 1, 1947		12,485,253
Total		$19,255,087
Dividends Paid—95 cents a share (paid as follows: March 15, 17½ cents; June 14, 17½ cents; September 13, 17½ cents; December 15, 42½ cents)		5,463,095
Earned Surplus, December 31, 1947 (since August 1, 1939)		$13,791,992

The accompanying Notes to Financial Statements are an integral part of this summary.

PEPSI-COLA COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1947

1. The inventories are stated at cost, representing average cost except for certain ingredients for which cost is determined on the basis of first-in, first-out. Such cost was not in excess of market at December 31, 1947.

2. Certain assets of a Cuban subsidiary are pledged as collateral to the loans payable to bank, which are obligations of that subsidiary. These assets consist of cash, $250,204, accounts receivable, $79,964, and finished and in-process inventories, $403,928.

3. Foreign subsidiaries:

The current assets and liabilities, total assets and liabilities, and net income of foreign subsidiaries included in the consolidated financial statements at December 31, 1947 are as follows:

	British subsidiary	*Canadian subsidiary*	*Cuban subsidiaries*	*Mexican subsidiaries*
Current assets	$ 243,138	$1,783,747	$2,596,312	$ 87,588
Current liabilities	74,344	440,595	1,905,832	916
Total assets	403,028	2,183,767	8,325,561	189,325
Total liabilities	90,027	440,595	2,125,595	134,978
Net income (loss)	(25,605)	550,393	1,713,444	(50,651)

The assets, liabilities, income and expenses of these subsidiaries are included in the consolidated financial statements on the following basis: the current assets and liabilities and income and expenses (except for depreciation) of the British and Canadian subsidiaries have been converted into United States dollars at the official rate of exchange at December 31, 1947, and those of the Cuban and Mexican subsidiaries at the current rate of exchange at that date; their other assets and liabilities have been included at amounts which reflect their United States dollar equivalent at the time of acquisition or origin. The provision for depreciation has been converted for all of the companies at rates prevailing at time of acquisition of the related assets.

Provisions for taxes related to the transfer of funds to the United States are made only at the time of such transfers.

The withdrawal of funds of the British and Canadian subsidiaries is subject to presently prevailing foreign exchange restrictions.

4. The Federal income tax returns of the Company and domestic subsidiaries have been examined by the Treasury Department through the year 1943. Additional assessments against the Company for the years 1941, 1942 and 1943 were settled in 1947 by payment of $2,166,325 (net), including interest. Of this amount, $2,114,517 was charged to the reserve for contingent taxes, which had been provided in previous years for such purpose. The remainder of the reserve relating to taxes, $546,436, has been transferred to the accrued tax account to cover amounts which may eventually be payable with respect to tax years not yet settled; tax returns for the year 1944 are presently being examined.

[Continued on following page]

Notes to Financial Statement—Continued

In addition to the foregoing matters, the Company has previously filed an application for an increase in its excess-profits credit under relief provisions (Section 722) of the Internal Revenue Code. An examining agent of the Treasury Department has recommended rejection of the claim but the Company is appealing this recommendation and making application for reconsideration of its claim by the special Field Committee designated to review such claims. Since it is impossible to predict whether the Company will obtain any relief in this respect, no effect has been given to this claim in the financial statements.

5. Pursuant to a resolution adopted at the annual meeting of stockholders held on April 26, 1944, the Company granted to Walter S. Mack, Jr., President of the Company, an option to purchase up to 45,000 shares of the authorized and unissued capital stock of the Company of the par value of 33⅓ cents each at $16⅞ per share. The option is subject to the provisions of an agreement dated July 12, 1944 and is exercisable in various amounts and at various times not later than May 26, 1949.

   The stockholders, at the annual meeting held on May 7, 1947, also approved resolutions granting to other officers and employees options to purchase up to 58,547 shares of the unissued capital stock of the Company at $30¾ per share. These options are exercisable in various amounts and at various times not later than June 30, 1955.

6. In 1939 a general reserve in the amount of $3,000,000 was provided for known and unknown contingent liabilities existing at July 31, 1939, for rentals on leases of former Loft stores in excess of the approximate fair rental values as of that date of the premises covered by such leases, and for losses on settlement of such leases. As of July 31, 1940, based upon a review of the then known contingent liabilities and leasehold commitments, the Board of Directors increased the general reserve by a transfer thereto of $1,489,832 from capital surplus. Charges to the reserve from August 1, 1939 to December 31, 1947 are shown below:

Amounts provided, as stated above		$4,489,832
Charges to reserve:		
August 1, 1939 to December 31, 1946	$4,023,870	
Year 1947	33,113	4,056,983
Remainder, returned to capital surplus (represents only change in capital surplus in 1947)		$ 432,849

   There are no longer any significant contingent liabilities in connection with such leases.

7. A claim by one of the Company's subsidiaries for recovery of excessive customs duties paid is being contested by the Government. The United States Customs Court in a decision handed down in November 1947 determined that the subsidiary was entitled to a refund of approximately $450,000. The Government is appealing this decision to the United States Court of Customs and Patent Appeals. Pending final determination of the matter no effect has been given in the financial statements to the refund.

8. The provision for depreciation for 1947, charged to manufacturing and expense accounts, amounted to $839,825.

DIRECTORS

James W. Carkner
Walter W. Colpitts
Mortimer Hays
Bryan Houston
Walter S. Mack, Jr.
Herbert M. Singer
Harral S. Tenney
Albert E. Winger

EXECUTIVE COMMITTEE

Walter S. Mack, Jr., *Chairman*
Bryan Houston
Herbert M. Singer
Harral S. Tenney

OFFICERS

Walter S. Mack, Jr.	*President*
Bryan Houston	*Executive Vice-President*
William B. Forsythe	*Vice-President*
Talbot O. Freeman	*Vice-President*
William Geisler	*Vice-President*
Alfred B. Hoppe	*Vice-President*
George M. O'Neil	*Vice-President*
Richard J. Ritchie	*Vice-President*
Donald S. Hawkes	*Vice-President*
Milward W. Martin	*Secretary*
Joseph A. Murphy	*Treasurer*
Thomas E. O'Callaghan	*Asst. Secretary*
W. W. Masters	*Asst. Treasurer*
Louis E. Nufer	*Asst. Treasurer*

Asst. Vice-Presidents

Richard A. Buck
Thomas Elmezzi
Walter M. Furlow
William C. Geoghegan, Jr.
Albert J. Goetz
Edward A. LeRoy, Jr.
Edmund Loughlin
Ruth R. Maier
Louis R. Ripley
Louis Saperstein
A. Allen Thomson

AUDITORS

Haskins & Sells
Certified Public Accountants

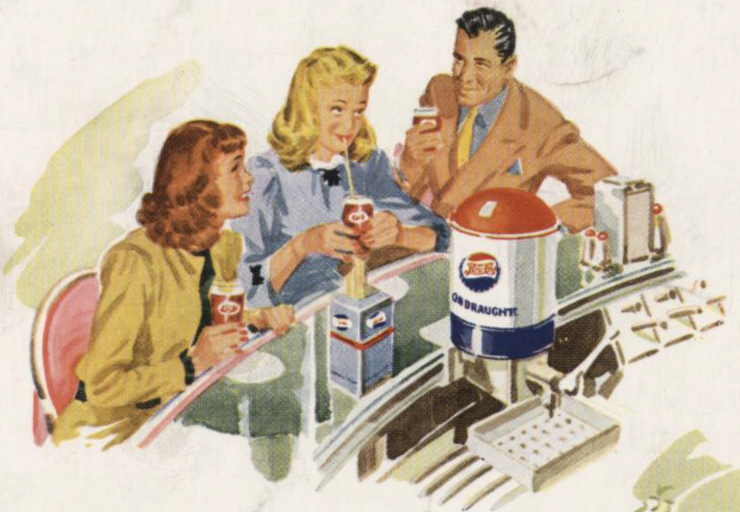
TRANSFER AGENTS

The Marine Midland Trust Company of New York
New York, N. Y.

The First National Bank of New Jersey
Jersey City, N. J.

REGISTRAR

The Chase National Bank of the City of New York
New York, N. Y.



Pepsi-Cola from the new fountain dispenser.

Pepsi-Cola at home from the bottle.

Pepsi-Cola from the new cup vending machine.

Pepsi-Cola and Evervess in the handy carrier at your store.